

AR50

ANNUAL
REPORT
1978



FIVE YEAR FINANCIAL HIGHLIGHTS

For the Year (in \$ 000)	1978	1977	1976	1975	1974
Sales	\$67,848	\$35,219	\$18,531	\$14,064	\$14,792
Earnings (Loss)	5,080	2,515	1,535	371	(386)
Earnings as % of Sales	7.5%	7.1%	8.3%	2.6%	(2.6%)
Depreciation & Amortization	3,032	1,758	752	586	646
Cash Flow	9,351	4,787	2,637	988	478
Capital Expenditures	4,079	4,081	2,080	409	894
Dividends Paid	402	252	277	101	252

Per Share Amounts

Earnings (Loss)	\$ 5.05	\$ 2.50	\$ 1.53	\$.37	\$ (.38)
Cash Flow	9.29	4.76	2.62	.98	.48
Dividends Paid	.40	.25	.27 1/2	.10	.25
Shareholders' Equity	12.53	7.88	5.63	4.38	4.09

Year End Position (in \$ 000)

Working Capital	\$ 3,664	\$ 738	\$ 635	\$ 611	\$ 573
Long-Term Debt Including					
Current Installments	9,907	11,957	248	964	1,490
Shareholders' Equity	12,603	7,925	5,662	4,404	4,133
Common Shares Outstanding (in 000's shares)	1,006	1,006	1,006	1,006	1,006

Note: The above amounts have been restated as required to reflect accounting changes and the 1973 two for one share split; earnings are before extraordinary items.

CONTENTS

Five Year Financial Highlights	1
Directors' Report to the Shareholders	3
1978 in Review	3
Financial	5
Dividends	5
Outlook for 1979	5
Financial Statements	8
Auditors' Report	12
Corporate Information	13

The Board of Directors, Balco Industries Ltd.

Left to Right, R. L. Cliff, P. J. G. Bentley, J. A. Robinson, D. L. Balison, J. R. Longstaffe, J. G. Chaston, J. S. Farrell, W. M. Robson.



DIRECTORS' REPORT TO THE SHAREHOLDERS

1978 IN REVIEW

1978 marked the first full year of operation of the Company since the acquisition of Integrated Wood Products Ltd. and its subsidiaries. The Company achieved not only a new plateau of gross revenue, but also the best earnings in its history. This was made possible by virtue of the many improvements throughout these newly acquired operations and the ongoing successful operation of the original Balco assets. We were also aided by good lumber and plywood markets throughout most of the year, with the added assistance of the weak Canadian dollar.

Consolidated net earnings in the year ended November 30, 1978 were \$5,080,347 or \$5.05 per share, compared with the 1977 level of \$2,515,063 or \$2.50 per share. Consolidated sales increased from \$35,219,067 in 1977 to \$67,848,102 in 1978. It would be quite misleading to say that the success was brought about simply by increased volume, good markets and exchange because we wish to emphatically acknowledge the great effort and support of all employees throughout the organization who have continued to produce high quality products which have gained widespread acceptance in the marketplace. It is further gratifying to report that in addition to this dedicated effort towards productivity and quality improvement, a new safety attitude now exists and considerable strides have been made towards much improved safety performance for the future.

Total volume shipments were 211.1 million board feet and average sales return was somewhat higher than anticipated. Plywood markets were steady but improved towards the end of the year with total shipments of 657.4 million square feet (1/16" basis) while shipments of market veneer from the Nicola Division were in excess of 210 million square feet (1/16" basis). Our lumber and plywood sales agreements with Canadian Forest Products Ltd. have served us well and will continue for the year 1979.

By-product sales were still somewhat curtailed in spite of participating in limited volume of pulp chip exports. The pulp industry only enjoyed an upturn in the last quarter of 1978. As a result of the improved pulp market outlook our opportunities for improved volume sales of by-products throughout the company will be significantly enhanced in the coming year.

Availability of suitable rail equipment both as to volume and type of equipment was a problem, particularly through the first part of the year. It was only through considerable effort and flexibility on the part of all involved that we were able to cope with the transportation bottlenecks which have by no means been resolved at this time.

Total wage, salary and benefit costs paid to our 991 employees amounted to \$18.5 million as compared to \$11.4 million in 1977. We were operating in the second year of a two-year labour contract. Woodlands harvested a combined total of 400,324 cunits of timber during the year. We are continuing to expend our efforts in ensuring the orderly development of future wood supply by the proper rehabilitation techniques on the cut-over lands. This past year 707,000 seedlings were planted in those areas that were not sufficiently restocked through the natural regeneration process.

Heffley Division, Sawmill and Plywood Plant
Located at Heffley Creek, 23 km from Kamloops, B.C.





Our subsidiary, Waymark Services Ltd., which operates a service station and restaurant at Heffley Creek, initially established as a service for the Heffley Division, continues to show a modest level of earnings.

FINANCIAL

A comprehensive capital expenditure program was carried out and the Company in 1978 spent a total of \$4,079,195 for new plant and equipment and forest access roads. The proceeds from the disposal of assets was \$189,090. In the past five years, the company has spent in excess of \$11.5 million in upgrading and expanding its manufacturing capability and in developing access roads to our timber supply. We firmly believe in the concept that a long range reinvestment policy is a prerequisite in this industry to improve productivity and the maintenance of a steady year-round workforce in order to offset escalating costs of operations.

The long term debt was substantially reduced by payments of \$2,509,779 compared to payments of \$567,721 in 1977. Even with these payments, the working capital at year end was increased to \$3,664,639 from \$738,049.

DIVIDENDS

The Company paid a dividend of 12½¢ per share in May 1978, and a further dividend of 12½¢ per share in November. The Directors also approved the payment of an extra-ordinary tax paid dividend of 15¢ per share in November.

The Directors have approved to increase the dividends from 12½¢ per share paid semi-annually, to 10¢ per share paid quarterly. A dividend of 20¢ per share for the first two quarters of 1979 will be paid to the shareholders of record of May 1, 1979 on May 15, 1979.

OUTLOOK IN 1979

With the assimilation of the recently acquired facilities of Integrated Wood Products Ltd., and with the company's original asset base, many further opportunities for improvements are being constantly identified. Accordingly, the company will continue an aggressive capital expenditure program in 1979. The planned program calls for expenditures of \$6,445,000 and includes main logging and access roads. Along with numerous machinery and equipment replacements, the major expenditure will be the installation of a continuous lay-up line for the Heffley Division plywood plant at a cost of \$2.2 million. This installation will be the most modern in the Province and should result in improved productivity. Some of these new investments will allow for some increase in capacity but more importantly they are designed primarily for the better utilization of our raw material supply through higher recoveries and through the elimination of some tedious work functions which will also lead to productivity improvements.

We anticipate reasonable lumber markets for the first half of the year but a definite weakening in prices as the year progresses. We expect that plywood markets will be satisfactory for most of the year and that the opportunity for the sale of by-products will be more favourable than in recent years.

Regulations arising from the new Forest Act were recently introduced to the industry. We have expressed our concern that some of the Regulations as presently proposed, could have a detrimental effect on the economic health of the industry. By continuing dialogue with the Forest Service, we are hopeful that common sense will prevail. We anxiously await the regulation governing tenure and recognize that

significant changes to the existing system could ultimately affect our future operating stance. Another regulation still to be finalized is on Intensive Forest Management. We wholeheartedly support and welcome the opportunity to participate in this important aspect of Forest Management.

1979 is a negotiating year for industry collective agreements. We sincerely hope that no unnecessary disruptions occur and that a mutually satisfactory agreement may be achieved through direct negotiation between the industry and the unions.

We wish to announce that Mr. David L. Balison, President and Chief Executive Officer of Balco since 1973 and one of the founders, having been involved with both the company and its predecessor companies since 1946, has decided to retire at the end of September 1979. His contribution to the company can be likened to the success of the company itself as evidenced by this report. We are pleased to advise that his wealth of experience and expertise will not be lost to the company when he steps down from his present position as he will continue to serve the company as a Director.

Fadear Division, Sawmill

Located at Louis Creek, B. C.





Nicola Division, Sawmill and Plywood Plant

Located at Merritt, B.C.

We are pleased to announce that Mr. H. O. (Hal) Smith, presently General Manager of the Chetwynd Division of Canfor Limited, will be appointed as President after Mr. Balison's retirement and will also serve as a Director.

We wish to take this opportunity to extend our sincere appreciation and thanks to our employees, our contractors and their staff members, to our suppliers and our customers. It is only through the efforts and contributions by each and every person in these categories that it has been possible for the company to enjoy its best year to date.

On behalf of the Directors,

D. L. Balison
President

March 1979

Consolidated Statement of Earnings

For the year ended November 30, 1978

	1978	1977
Sales	\$ 67,848,102	\$ 35,219,067
Costs and expenses		
Cost of sales	52,302,025	27,327,653
Depreciation, depletion and amortization	3,032,195	1,757,688
Administration and other expenses	1,935,402	1,350,940
Interest - on current debt	296,904	186,827
- on long-term debt	932,951	384,416
	58,499,477	31,007,524
Earnings from operations	9,348,625	4,211,543
Equity in (loss) of 50% owned company		(3,132)
Earnings before income taxes	9,348,625	4,208,411
Provision for income taxes - current	3,090,048	1,179,587
- deferred	1,178,230	513,761
Earnings for the year	\$ 5,080,347	\$ 2,515,063
Earnings per share	\$ 5.05	\$ 2.50

Consolidated Statement of Retained Earnings

For the year ended November 30, 1978

	1978	1977
Balance at beginning of year	\$ 6,618,818	\$ 4,355,255
Earnings for the year	5,080,347	2,515,063
	11,699,165	6,870,318
Dividends	402,400	251,500
Balance at end of year	\$ 11,296,765	\$ 6,618,818

Consolidated Balance Sheet

As at November 30, 1978

	1978	1977
Current Assets		
Accounts receivable - note 3	\$ 6,776,519	\$ 5,465,896
Income taxes receivable		31,254
Inventories - notes 2 and 3	8,710,000	8,641,000
Prepaid expenses	106,675	44,879
	15,593,194	14,183,029
Less current liabilities		
Bank indebtedness - note 3	430,060	6,709,159
Accounts payable	7,599,414	4,945,319
Income taxes payable	2,567,969	527,755
Long-term debt instalments due within one year	1,331,112	1,262,747
	11,928,555	13,444,980
Working capital	3,664,639	738,049
Invested capital		
Timber deposits and private timber	359,850	496,541
Property, plant and equipment - note 4	21,044,139	20,092,725
Deferred charges and other assets - note 7	136,996	79,906
	21,540,985	20,669,172
Less:		
Long-term liabilities - notes, agreements and mortgages payable - note 5	8,576,392	10,694,171
Deferred income taxes	4,025,800	2,787,565
	12,602,192	13,481,736
Net invested capital	8,938,793	7,187,436
Shareholders' equity	\$ 12,603,432	\$ 7,925,485
Represented by:		
Common shares without par value		
Authorized 2,000,000 shares		
Issued and fully paid 1,006,000 shares	\$ 1,290,000	\$ 1,290,000
Retained earnings	11,296,765	6,618,818
Capital surplus	16,667	16,667
Shareholders' equity	\$ 12,603,432	\$ 7,925,485

Approved on behalf of the board


Director


Director

Consolidated Statement of Changes in Financial Position

For the year ended November 30, 1978

	1978	1977
Source of working capital		
Earnings for the year	\$ 5,080,347	\$ 2,515,063
Items not involving working capital		
Depreciation, depletion and amortization	3,032,195	1,757,688
Deferred taxes	1,238,230	513,761
Equity in loss of 50% owned company		3,132
	9,350,772	4,789,644
Net proceeds from disposal of assets	189,090	141,581
Assumption of long-term debt	392,000	8,891,466
Proceeds from sale of equity in 50% owned company		45,000
	9,931,862	13,867,691
Application of working capital		
Investment in plant and equipment	3,492,192	3,716,865
Investment in forest access roads	587,003	363,894
Payments on long-term debt	2,509,779	567,721
Payment of dividends	402,400	251,500
Purchase of private timber		188,300
Purchase of subsidiary company for \$7,507,444 plus working capital deficiency at acquisition of \$1,168,866		8,676,310
Other application of funds	13,898	
	7,005,272	13,764,590
Increase in working capital	2,926,590	103,101
Working capital at beginning of year	738,049	634,948
Working capital at end of year	\$ 3,664,639	\$ 738,049

Notes to Consolidated Financial Statements

November 30, 1978

1. Summary of significant accounting policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of Balco Industries Ltd. and its subsidiaries, all wholly-owned: Active - Fadear Creek Lumber Co. Ltd., Nicola Valley Sawmills Ltd., Waymark Services Ltd. Inactive - Nicola Timber Limited.

During the year the company voluntarily wound-up the following subsidiaries, whose accounts are included to the dates of winding-up: Integrated Wood Products Ltd., Balco Building Supplies Ltd., Bal Crete Construction Materials Ltd., Interior Block Manufacturing (1964) Ltd. and Red Diamond Trucking Company Ltd.

b) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost, other than for supplies, is determined by a weighted average cost method.

c) Property, Plant and Equipment

Property, plant and equipment includes cost of major replacements and betterments. Maintenance, repairs and minor replacements are charged against income as incurred.

d) Depreciation, Depletion and Amortization

Depreciation of property and equipment is provided on a straight-line basis at rates varying from 4% to 20%. The application of these rates for the year ended November 30, 1978 results in a composite rate of 8.3%. The rate for each class of property is based on estimated economic life.

Depletion of timber cutting rights is provided on the basis of timber harvested.

Logging roads are amortized as timber is harvested at rates determined with reference to volumes of timber estimated to be removed over such facilities.

e) Deferred Income Taxes

Deferred income taxes are provided to recognize the effect of timing differences between accounting and taxable income.

f) Income Taxes

Investment tax credits on qualified property purchased are used to reduce current income taxes payable in the year of realization. As a result current income taxes have been reduced by \$269,997 (1977 - \$175,332).

2. Inventories

	1978	1977
Logs	\$4,283,000	\$4,534,000
Lumber	3,276,000	2,768,000
Veneer	193,000	206,000
Plywood	226,000	589,000
Fuel, oil, parts and supplies	732,000	544,000
	\$8,710,000	\$8,641,000

3. Bank indebtedness

The company has granted its bank a general assignment of accounts receivable, hypothecation of inventories and a demand debenture covering all assets of the company to secure its indebtedness.

4. Property, plant and equipment

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	\$ 1,520,293		\$ 1,520,293
Plant & equipment	29,909,142	\$11,399,122	18,510,020
Roads	3,819,659	2,805,833	1,013,826
	\$35,249,094	\$14,204,955	\$21,044,139

5. Agreements and mortgages payable

	Principal Payments Due Within One Year	Total
Agreement Payable, unsecured, payable in monthly instalments of \$1,500 with interest at 9% per annum	\$ 18,000	\$ 49,500
Promissory Note plus accrued interest, payable in annual instalments of \$800,000 starting June 28, 1981, interest accrued at 7% per annum payable June 28, 1988		\$6,158,466
First Mortgage on service centre payable in monthly instalments of \$1,232 including interest at 8½ % per annum, maturing in September, 1980	\$ 13,112	24,538
Demand Bank Loans, repayable by arrangement as follows plus interest at prime plus ½ % - note 3		
- \$175,000 quarterly	700,000	1,475,000
- \$ 75,000 quarterly	300,000	1,500,000
- \$ 75,000 quarterly	300,000	700,000
	\$1,331,112	\$9,907,504
Principal payments due within one year		1,331,112
		\$8,576,392

The annual maturities of long-term debt for each of the next five years are as follows:

1979	\$1,331,112
1980	\$1,329,426
1981	\$1,288,500
1982	\$1,100,000
1983	\$1,100,000

Notes Continued

6. Pension costs

As a result of amendments to the company's pension plan to include employees of the consolidated subsidiaries and past service benefits, an amount of \$369,814 has been accrued and charged to earnings in 1978.

7. Statutory information

Remuneration to directors and senior officers (as defined by the B.C. Companies Act) of the company in their capacities as directors, officers and employees of the company in the current fiscal period was \$245,181 (1977 - \$234,385) including \$70,450 to directors, of which \$7,900 was directors' fees.

Other assets include a loan to an officer of \$36,160.

8. Commitments

Subsequent to November 30, 1978 the company gave commitments totalling \$2,200,000 in connection with modifications to its plywood plant.

9. Anti-inflation Act

The company has been subject to the Anti-inflation Act in connection with controls on prices, profits, compensation and dividends and has complied.

10. Comparative figures

The statements of earnings and changes in financial position for the year ended November 30, 1977 include the operations of Integrated Wood Products Ltd. and its subsidiaries from July 1, 1977, the date of acquisition.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Balco Industries Ltd. as at November 30, 1978 and the consolidated statement of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1978 and the results of its

operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Garrett, Gould & Elliot

Chartered Accountants

Kamloops, B.C.
February 6, 1979

DIRECTORS OF THE COMPANY

D. L. Balison,*

President and Chief Executive Officer,
Balco Industries Ltd., Kamloops, B.C.

P. J. G. Bentley,

President and Chief Executive Officer,
Canadian Forest Products Ltd., Vancouver, B.C.

J. G. Chaston,*

Chairman of the Board,
Pemberton Securities Ltd., Vancouver, B.C.

R. L. Cliff,*

Chairman of the Board,
Inland Natural Gas Co. Ltd., Vancouver, B.C.

J. S. Farrell,

Vice-President, Planning
Versatile Cornat Corporation, Vancouver, B.C.

J. R. Longstaffe,

Executive Vice-President,
Canadian Forest Products, Vancouver, B.C.

J. A. Robinson,

Group Vice-President,
Wood Products Manufacturing
Canadian Forest Products Ltd., Vancouver, B.C.

W. M. Robson,

Vice-President,
Marketing and Transportation, Wood Products
Canadian Forest Products Ltd., Vancouver, B.C.

*Member of Audit Committee

OFFICERS OF THE COMPANY

J. R. Longstaffe,

Chairman, Vancouver, B.C.

D. L. Balison,

President and Chief Executive Officer,
Kamloops, B.C.

T. G. Jeanes,

Vice-President, Woodlands, Kamloops, B.C.

J. Miyazawa

Vice-President, Administration, Kamloops, B.C.

J. Y. Obana,

Vice-President, Finance & Controller
Kamloops, B.C.

L. H. Rodrigue,

Vice-President, Production, Kamloops, B.C.

R. F. Weinman,

Secretary, Vancouver, B.C.

BUSINESS LOCATIONS

Company Offices:

R.R. No. 3, Kamloops, B.C. V2C 5K1

Auditors:

Jarrett, Goold & Elliott, Chartered Accountants,
Kamloops, B.C.

Solicitors:

Rogers, Hunter & Company, Kamloops, B.C.

Bankers:

Canadian Imperial Bank of Commerce,
Kamloops, B.C.

Transfer Agent and Registrar:

Yorkshire Trust Company, Vancouver, B.C.

Wholly-Owned Subsidiaries:

Active:

Fadear Creek Lumber Co. Ltd.
Louis Creek, B.C.

Nicola Valley Sawmills Limited,
Merritt, B.C.

Waymark Services Ltd.,
Kamloops, B.C.

Inactive:

Integrated Wood Products Ltd.

Balco Building Supplies Ltd.

Nicola Timber Limited

Red Diamond Trucking Company Ltd.

Annual General Meeting:

Thursday, April 19, 1979 at 5:00 p.m.
in the Canadian Inn, Kamloops, B.C.

